

Retail Equity Research (South India Focus)

**NCC Ltd**

Construction & Engineering

BSE CODE : 500294 NSE CODE: NCC  
BLOOMBERG CODE: NJCC:IN SENSEX : 50,890

**BUY**

12M Investment Period

Rating as per Small Cap

**CMP Rs. 89 TARGET Rs. 120 RETURN 35%** ↑  
(Closing: 19-02-21)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↑

**Strong order book provides visibility...**

NCC Limited (NCC) is one of the largest well diversified construction companies in India with a foothold in every segment of construction sector.

- Q3FY21 revenue declined by 9.4% YoY due to muted execution & impact of labour availability.
- EBITDA margin improved by 67bps YoY to 12.5% due to fall in employee cost and other expenses.
- Order book remain healthy at Rs39,182cr (5.7x TTM revenue) supported by strong inflow of Rs190bn in 9MFY21 and NCC expect Rs2,000cr of fresh orders in Q4FY21.
- Adj. PAT declined by 47% YoY due to lower volume of turnover and higher tax rate of 38%.
- NCC expect work efficiency will back to normalcy in the coming quarters and guided for Rs7,200cr of revenue (vs earlier Rs7,700cr) FY21E.
- We maintain Buy rating due to strong order book and cheap valuation with a TP of Rs120, based on a P/E of 15x on FY23E earnings.

**Execution to pick up pace...**

Q3FY21 revenue declined by 9.4% YoY to Rs1,918cr (below our estimate) due to muted construction activity and impact of man power availability. The company has guided for Rs2500 to Rs2800cr revenue in Q4FY21 led by pick up in execution and normalised level of work force. Currently most of the sites are opened and work efficiency has improved and targets to achieve 90% in Q4FY21. The management has guided for Rs7,200cr revenue in FY21 (vs earlier Rs.7,700cr) and expects revenue to surpass Rs10,000cr in FY22E. We therefore, increase FY21E/FY22E revenue estimate by 9%/14% respectively.

**Healthy order book ...**

NCC's order book remains healthy at Rs39,182cr (5.7x TTM revenue) supported by strong order inflow of Rs190bn in 9MFY21. NCC currently has Rs4,300cr of orders outstanding from Govt. of Andhra Pradesh, all are under execution. Due to strong momentum in infrastructural verticals, NCC expects Rs2,000cr of fresh orders in Q4FY21 and guided for Rs40,000cr of order book in FY21E. In terms of sector, building (58%), water (17%), roads (6%), irrigation (6%), mining (6%), electrical division (7%) of order book.

**Margins improved...**

In Q3FY21, EBITDA margin improved by 67bps YoY to 12.5% on account of fall in employee cost (-18.2% YoY) and lower other expenses (-40.2% YoY). While gross margin declined by 105bps to 19.5% due to higher construction and sub-contracting expenses. The management highlighted that cost controlling measures, high margin orders and pickup in execution will help to attain a strong margin of 12% in FY21. Adj.PAT de-grew by 47.2% YoY to Rs70cr due to lower volume of turnover and higher tax rate of 38%.

**Valuations**

NCC's comfortable order book provides visibility for the coming years. Improving work efficiency and better margin guidelines will support earnings in the coming quarters. We therefore, maintain Buy rating and value NCC at a P/E of 15x on FY23E earnings with a target of Rs120.

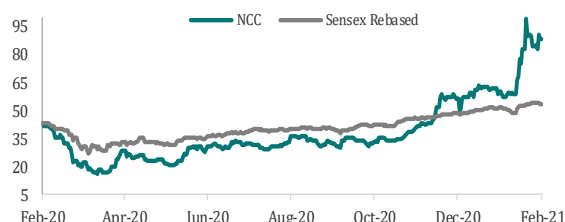
**Company Data**

Market Cap (cr)	₹ 5,340
Enterprise Value (cr)	₹ 6,991
Outstanding Shares (cr)	60.1
Free Float	80.3%
Dividend Yield	0.23%
52 week high	₹ 100
52 week low	₹ 16
6m average volume (cr)	0.6
Beta	1.4
Face value	₹ 2

Shareholding (%)	Q1FY21	Q2FY21	Q3FY21
Promoters	19.31	19.68	19.68
FII's	11.42	9.8	10.32
MFs/Insti	13.45	12.31	11.43
Public	55.82	58.21	58.57
Total	100.0	100.0	100.0
Promoter pledge%	29.73	26.19	23.28

Price Performance	3 month	6 Month	1 Year
Absolute Return	113%	144%	106%
Absolute Sensex	17%	34%	24%
Relative Return*	96%	110%	82%

over or under performance to benchmark index



Standalone (cr)	FY21E	FY22E	FY22E
Sales	7,445	9,901	11,483
Growth (%)	-9.4	33.0	16.0
EBITDA	908	1,198	1,378
EBITDA Margin(%)	12.2	12.1	12.0
PAT Adj.	288	481	581
Growth (%)	-30.6	67.3	20.7
Adj.EPS	4.8	8.0	9.7
Growth (%)	-30.6	67.3	20.7
P/E	18.6	11.1	9.2
P/B	0.9	0.9	0.8
EV/EBITDA	7.9	6.1	5.4
ROE (%)	5.5	8.6	9.6
D/E	0.3	0.3	0.3

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Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr)	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %	9MFY21	9MFY20	YoY Growth %
<b>Sales</b>	1918	2117.2	-9.4	1540.8	24.5	4638	6037	-23.2
<b>EBITDA</b>	239	250.0	-4.3	209.8	14.1	565	750	-24.7
EBITDA margins %	12.5	11.8	0.67	13.6	-1.14	12.2	12.4	-0.24
Depreciation	43.9	45.0	-2.5	43.4	1.1	131	134	-2.1
<b>EBIT</b>	195.5	205.0	-4.6	166.4	17.5	434	616	-29.5
Interest	106.5	141.8	-24.9	117.7	-9.5	340	398	-14.6
Other Income	24.5	31.9	-23.2	37.3	-34.5	94	127	-25.8
Exceptional Items							-39	
<b>PBT</b>	113.4	72.2	57.1	86.0	31.9	188	305	-38.3
Tax	43.1	-38.1	-213.2	27.6	56.1	43	34	26.3
Share of profit from Associate								
<b>Minority Interest</b>								
<b>Reported PAT</b>	70.3	110.3	-36.2	58.4	20.4	146	272	-46.4
Adjustments	70.3	133.2	-47.2	58.4	20.4	146	311	-53.2
<b>Adj PAT</b>	70.3	133.2	-47.2	58.4	20.4	146	311	-53.2
No. of Shares	60.1	60.1		60.1		60.1	60.1	
<b>EPS (Rs)</b>	1.3	2.4	-47.2	1.1	20.4	3	6	-53.2

### Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Revenue	6,808	8,668	7,445	9,901	11,483	9.4	14.2
EBITDA	756	979	908	1,198	1,378	20.1	22.4
Margins (%)	11.1	11.3	12.2	12.1	12	110bps	60bps
Adj. PAT	165	254	288	481	581	74.3	89.4
EPS	2.8	4.2	4.8	8.0	9.7	74.3	89.4

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales</b>	12,080	8,219	7,445	9,901	11,483
% change	60	-32	-9	33	16
<b>EBITDA</b>	1,423	1,030	908	1,198	1,378
% change	66	-28	-12	32	15
Depreciation	149	178	178	198	209
EBIT	1,274	853	730	1,000	1,169
Interest	451	518	458	484	525
Other Income	118	151	124	130	135
<b>PBT</b>	882	453	397	646	779
% change	140	-49	-12	63	21
Tax	318	71	109	165	199
Tax Rate (%)	36	16	28	26	26
<b>Reported PAT</b>	564	382	288	481	581
Adj.*	-59	-33	0	0	0
<b>Adj. PAT</b>	623	415	288	481	581
% change	58	-33	-30.6	67.3	20.7
No. of shares (cr)	60	61	61	61	61
<b>Adj EPS (Rs)</b>	10	7	5	8	10
% change	58	-33	-30.6	67.3	20.7
DPS (Rs)	0.2	0.2	0.2	0.2	0.2

### BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	59	299	432	306	375
Accounts Receivable	4,689	3,154	2,611	3,092	3,524
Inventories	1696	513	505	657	761
Other Cur. Assets	2,382	6,741	6,812	7,948	9,218
Investments	1,024	1,119	1,111	1,144	1,179
Gross Fixed Assets	1,550	2,060	2,510	2,610	2,710
Net Fixed Assets	748	1,109	1,208	1,112	1,005
CWIP	23	14	10	10	10
Intangible Assets	2	1	1	1	1
Def. Tax (Net)	179	173	183	180	176
Other Assets	0	37	0	0	0
<b>Total Assets</b>	10,801	13,159	12,873	14,450	16,248
Current Liabilities	5,202	6,314	5,290	6,348	7,480
Provisions	44	62	82	95	110
Debt Funds	1,164	1,736	1,802	1,922	2,042
Other Liabilities	149	290	350	300	300
Equity Capital	120	120	122	122	122
Reserves & Surplus	4,122	4,637	5,229	5,663	6,194
Shareholder's Fund	4,242	4,757	5,350	5,785	6,316
<b>Total Liabilities</b>	10,801	13,159	12,873	14,450	16,248
BVPS	76	86	96	104	114

### CASH FLOW

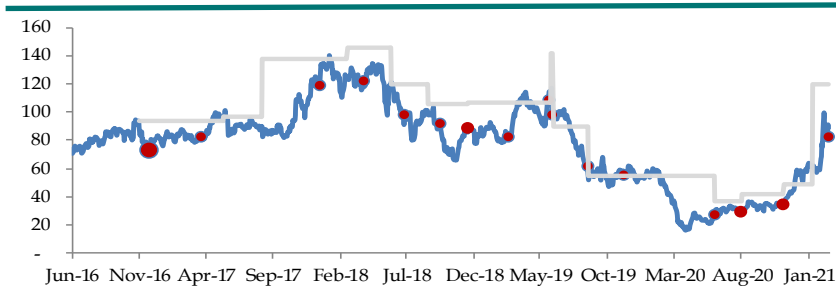
Y.E March (Rs Cr)	FY19A	FY20E	FY21E	FY22E	FY23E
Net inc. + Depn.	1,031	631	575	844	988
Non-cash adj.	140	414	371	323	330
Changes in W.C	-430	-329	-135	-747	-658
<b>C.F. Operation</b>	859	867	935	549	795
Capital exp.	-518	-349	-104	-100	-100
Change in inv.	-37	19	-11	-33	-34
Other invest.CF	-37	37	0	0	0
<b>C.F - Investment</b>	-710	-445	-239	-263	-269
Issue of equity	0	0	0	0	0
Issue/repay debt	573	-85	150	120	120
Dividends paid	-49	-50	-43	-46	-50
Other finance.CF	19	248	-231	-2	-2
<b>C.F - Finance</b>	91	-404	-581	-412	-457
Chg. in cash	240	18	115	-126	69
Closing cash	299	317	432	306	375

### RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	11.8	12.5	12.2	12.1	12.0
EBIT margin (%)	10.5	10.4	9.8	10.1	10.2
Net profit mgn.(%)	5.2	5.0	3.9	4.9	5.1
ROE (%)	13.8	8.4	5.5	8.6	9.6
ROCE (%)	11.7	11.0	7.7	9.6	10.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	118.5	128.2	128.2	105.1	105.1
Inventory (days)	40.6	28.9	31.3	26.5	27.9
Payables (days)	211.6	334.5	334.2	265.8	272.7
Current ratio (x)	1.7	1.8	1.9	1.9	1.8
Quick ratio (x)	0.5	0.5	0.5	0.5	0.5
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	6.7	3.7	3.0	3.9	4.3
Total asset T.O (x)	1.0	0.6	0.6	0.7	0.7
Int. covge. ratio (x)	2.8	1.6	1.6	2.1	2.2
Adj. debt/equity (x)	0.4	0.3	0.3	0.3	0.3
<b>Valuation</b>					
EV/Sales (x)	0.6	0.9	1.0	0.7	0.6
EV/EBITDA (x)	5.0	6.8	7.9	6.1	5.4
P/E (x)	8.6	12.9	18.6	11.1	9.2
P/BV (x)	1.0	1.0	0.9	0.9	0.8

## Recommendation Summary

(Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
25th January 2017	BUY	94
26th May 2017	Accumulate	97
26th February 2018	Accumulate	138
30th May 2018	BUY	146
3rd September 2018	BUY	120
22nd November 2018	BUY	106
22nd February 2019	BUY	107
28th May 2019	BUY	142
1st June 2019	Reduce	90
21st August 2019	Reduce	55
4th June 2020	BUY	37
14th August 2020	Buy	42
11th November 2020	BUY	49
22nd February 2021	Buy	120

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
<b>Buy</b>	<b>Upside is above 10%</b>	<b>Upside is above 15%</b>	<b>Upside is above 20%</b>
<b>Accumulate</b>	-	<b>Upside is between 10%-15%</b>	<b>Upside is between 10%-20%</b>
<b>Hold</b>	<b>Upside is between 0% - 10%</b>	<b>Upside is between 0%-10%</b>	<b>Upside is between 0%-10%</b>
<b>Reduce/sell</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>

### Not rated

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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